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SUBJECT: BRAZIL BIOFUELS UPDATE - SEPTEMBER 2006

IDB FUND APPROVES GRANT FOR ALTERNATIVE BIOFUEL MARKET

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[1](#)1. The Inter-American Development Bank (IDB) announced the approval of a USD 600,000 grant to Ecologica Institute, a nongovernmental organization in Brazil, to create alternative market opportunities in rural areas of the state of Tocantins. The project will implement an integrated model for the production and marketing of an alternative biofuel produced from sweet potatoes. Compared to sugarcane, sweet potatoes are considered by some scientists as a faster and more efficient source of biofuel. Recent estimates from the Brazilian Association for Industrial Machinery and Equipment show that approximately USD 1.7 billion will be invested in biodiesel infrastructure in the next three years.

SUGAR AND ETHANOL EXPORTS TO TOP MEAT EXPORTS

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[1](#)2. Brazilian sugar and ethanol exports have never been higher and will probably exceed meat, one of Brazil's principal commodity exports. The Brazilian Farm Bureau (CNA), estimates that Brazil will export approximately USD 7 billion in sugar and ethanol as compared to USD 4.87 billion in 2005. Total sugar/ethanol export revenues for the first seven months of this year increased more than 40% (USD 3.559 billion for 2006) when contrasted to the USD 2.536 billion revenue for the same period last year.

SUGAR AND ETHANOL REVENUES TOP USD 15 BILLION

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[1](#)3. Sugar and ethanol companies in Brazil will likely end the 2005/2006 season with net revenues of more than USD 15 billion, a 10% raise compared to last season. Data provided by the Sugarcane Producers Association of Sao Paulo (Unica) and the Brazilian National Supply Company (Conab) show that the country will process 471.2 million tons of sugar cane producing 17.8 billion liters of ethanol. This represents a more than 5% increase compared to last year.

FUTURE BIODIESEL FROM COTTON IN THE STATE OF BAHIA

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[1](#)4. U.S. based Crow West Company has plans to produce biodiesel from cotton seeds in Western Bahia in order to fuel tractors and other machinery that work on the state's expansive cotton and soybean farms. "Demand for biofuels is rising and biodiesel from cotton is 10% more economical than from soybeans," says Carlos Freitas, president of a consulting firm that is preparing the viability study for Crow West's plant construction. The plant will process 76,000 tons of cotton per year and will receive an estimate USD 17 million. The plant will be ready in August 2007.

PETROBRAS TO EXPORT ETHANOL TO VENEZUELA AND JAPAN

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[1](#)5. According to Brazilian daily "O Globo", Brazil's Petrobras and Venezuela's oil company PDVSA are working on drafting a long-term agreement for Brazil to sell ethanol to Venezuela. While figures revealing initial trade estimates were not disclosed, analysts expect the sales will be reflected in Petrobras' export summary as

early as 2007. Petrobras has also been talking to Japan, which is still analyzing the implementation of a 10% ethanol mix to the country's gasoline.

#### BRAZIL EXPERIMENTING ON HYDROGEN TRANSPORTATION

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16. Brazil will start testing buses that run on hydrogen and do not produce any kind of pollution. Five buses with hydrogen fuel cells will be put into test in 2007 in Sao Paulo, Brazil's biggest and most polluted city. If, after four years, the hydrogen buses continue to be viable, the fleet will be expanded to 100 or 200. Rio de Janeiro will implement a similar project.

#### AGENCY THREATENS TO CONTROL ETHANOL EXPORTS

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17. The National Petroleum Agency (ANP), through its executive director Haroldo Lima, said that ethanol exports could come under government control if there are threats that the domestic market could be undersupplied between the end of the current sugar cane harvest season and the beginning of the next one. On the other hand, the Ministry of Agriculture issued numbers that could avoid such government interference. Information from the Ministry points out a 137% increase in the volume of ethanol exports for August when compared to the same month last year and an estimated 17.8 billion liters of ethanol exports for 2006. This last data represents an extra billion liter of ethanol for the national demand's supply.

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